




UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 1, 1999

MEMORANDUM FOR: Larry Irving
Assistant Secretary for Communications and Information

FROM: Johnnie E. Frazier 
Acting Inspector General

SUBJECT: *NTIA's FY 1998 Financial Statements*
Audit Report No. FSC-10870-9-0001

The attached audit report presents an unqualified opinion on the audit of the National Telecommunications and Information Administration's (NTIA) FY 1998 financial statements. The unqualified opinion is especially noteworthy considering the significant changes mandated by OMB Bulletin No. 97-01, which required the preparation of four new financial statements. Also provided are reports on NTIA's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by NTIA management.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited financial statement must be prepared covering all accounts and associated activities of each office, bureau, and activity of the Department. The independent certified public accounting firm of Leon Snead & Company (LSC) was contracted to audit NTIA's Balance Sheet and related Statements of Net Costs, Changes in Net Position, Budgetary Resources, and Financing for FY 1998. The Office of Inspector General defined the audit scope, selected the contractor, and oversaw the performance and delivery of the audit.

In the opinion of LSC, the financial statements present fairly, in all material respects, the financial position of NTIA as of September 30, 1998 and the net costs of its operations; changes in net position; budgetary resources; and reconciliation of net costs to obligations of NTIA for FY 1998, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board.

Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The results of the LSC audit indicate that NTIA and its provider of accounting services have been successful in establishing an internal controls structure that facilitates the preparation of reliable accounting and financial information.

While NTIA's Report on Internal Controls contains no material weaknesses, it identifies one reportable conditions in NTIA's internal control structure:

- The financial management system used for accounting for NTIA's grant activity is not in compliance with United States Government Standard General Ledger (SGL) at the transaction level.

The Economic Development Administration (EDA) performs certain accounting functions on behalf of NTIA related to NTIA's grant funds. EDA's financial management system used for accounting for grant activity is not compliant with the SGL at the transaction level. LSC considers this issue to be a reportable condition to NTIA because EDA's grant accounting system processes the financial information used in preparing NTIA's financial statements. Since NTIA management is not responsible for the general controls surrounding EDA's grant accounting system, recommendations were directed to EDA management in OIG Audit Report No. FSD-10997-9-0001, *EDA's FY 1998 Financial Statements*.

LSC identified one instance of non-compliance in its Report on Compliance with Laws and Regulations. Under the Federal Financial Management Improvement Act of 1996, the auditors are required to report on whether the bureau's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the SGL at the transaction level. As noted above, EDA performs certain accounting functions related to NTIA's grant funds, but its financial management system used for grant accounting does not meet Federal financial management system requirements, including the SGL at the transaction level.

Our office reviewed a draft version of the NTIA overview to its FY 1998 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993 that requires government entities to collect and report information on their performance in meeting goals and objectives. NTIA incorporated many of our prior year suggestions to strengthen this integral component of the financial statements.

We informally provided NTIA management with a memo containing our observations and recommendations on the draft overview. Management was responsive, and also indicated that NTIA plans to make additional revisions to strengthen the overviews for FY 1999 and beyond. The OIG realizes that improving the overview is an iterative process. We encourage NTIA to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting.

If you wish to discuss the contents of this report or the audit action plan, please contact George E. Ross, Assistant Inspector General for Auditing, at (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Audits Division, at (703) 603-0301. We appreciate the cooperation and courtesies extended by NTIA during the audit.

Attachment

cc: Linda J. Bilmes
Acting Chief Financial Officer and
Assistant Secretary for Administration

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